

HUDSON TECHNOLOGIES INC /NY  
Form 10-Q  
May 02, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

**For the quarterly period ended March 31, 2019**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13412

**Hudson Technologies, Inc.**

(Exact name of registrant as specified in its charter)

**New York** **13-3641539**

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

**1 Blue Hill Plaza**  
**P.O. Box 1541**

**10965**

**Pearl River, New York**

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code **(845) 735-6000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x **Yes** " **No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) x **Yes** " **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	" Accelerated filer	x
Non-accelerated filer	" Smaller reporting company	x
	Emerging growth company	"

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). " Yes x No

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value	HDSN	NASDAQ Capital Market

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

<u>Common stock, \$0.01 par value</u>	<u>42,602,431 shares</u>
<b>Class</b>	<b>Outstanding at April 30, 2019</b>

**Hudson Technologies, Inc.**

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**Part I – FINANCIAL INFORMATION****Item 1 - Financial Statements****Hudson Technologies, Inc. and Subsidiaries****Consolidated Balance Sheets**

(Amounts in thousands, except for share and par value amounts)

	March 31, 2019 (unaudited)	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,170	\$ 2,272
Trade accounts receivable – net	20,103	14,065
Inventories	99,772	101,962
Prepaid expenses and other current assets	5,124	5,287
Total current assets	126,169	123,586
Property, plant and equipment, less accumulated depreciation	26,502	27,395
Goodwill	47,803	47,803
Intangible assets, less accumulated amortization	28,730	29,451
Right of use asset	7,564	-
Other assets	91	106
Total Assets	\$ 236,859	\$ 228,341
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Trade accounts payable	\$ 13,735	\$ 8,671
Accrued expenses and other current liabilities	19,917	19,023
Accrued payroll	500	1,046
Current maturities of long-term debt	2,127	2,672
Short-term debt	31,000	29,000
Total current liabilities	67,279	60,412
Deferred tax liability	515	443
Long-term lease liabilities	5,596	—
Long-term debt, less current maturities	97,918	98,273
Total Liabilities	171,308	159,128
Commitments and contingencies		

Stockholders' equity:

Preferred stock, shares authorized 5,000,000: Series A Convertible preferred stock, \$0.01 par value (\$100 liquidation preference value); shares authorized 150,000; none issued or outstanding	—	—
Common stock, \$0.01 par value; shares authorized 100,000,000; issued and outstanding 42,602,431 at March 31, 2019 and December 31, 2018	426	426
Additional paid-in capital	116,096	115,719
Accumulated deficit	(50,971 )	(46,932 )
Total Stockholders' Equity	65,551	69,213
 Total Liabilities and Stockholders' Equity	 \$ 236,859	 \$ 228,341

*See Accompanying Notes to the Consolidated Financial Statements.*

**Hudson Technologies, Inc. and Subsidiaries****Consolidated Statements of Operations****(unaudited)**

(Amounts in thousands, except for share and per share amounts)

	Three-month period ended March 31,	
	2019	2018
Revenues	\$34,664	\$42,428
Cost of sales	27,679	34,523
Gross profit	6,985	7,905
Operating expenses:		
Selling, general and administrative	6,024	8,077
Amortization	721	742
Total operating expenses	6,745	8,819
Operating income (loss)	240	(914 )
Interest expense	(4,207 )	(3,206 )
Loss before income taxes	(3,967 )	(4,120 )
Income tax (benefit)	72	(1,064 )
Net loss	\$(4,039 )	\$(3,056 )
Net loss per common share – Basic	\$(0.09 )	\$(0.07 )
Net loss income per common share – Diluted	\$(0.09 )	\$(0.07 )
Weighted average number of shares outstanding – Basic	42,602,431	42,403,029
Weighted average number of shares outstanding – Diluted	42,602,431	42,403,029

*See Accompanying Notes to the Consolidated Financial Statements.*

**Hudson Technologies, Inc. and Subsidiaries****Consolidated Statements of Stockholders' Equity****(unaudited)**

(Amounts in thousands, except for share amounts)

	Common Stock		Additional	Retained	
	Shares	Amount	Paid-in	Earnings	
			Capital	(Accumulated	Total
				Deficit)	
Balance at January 1, 2018	42,398,140	\$ 424	\$ 114,302	\$ 8,727	\$ 123,453
Issuance of common stock upon exercise of stock options and warrants	5,000	-	17	-	17
Value of share-based arrangements	-	-	26	-	26
Net loss	-	-	-	(3,056 )	(3,056 )
Balance at March 31, 2018	42,403,140	\$ 424	\$ 114,345	\$ 5,671	\$ 120,440

Balance at January 1, 2019	42,602,431	\$ 426	\$ 115,719	\$ (46,932)	\$ 69,213
Value of share-based arrangements	-	-	377	-	377
Net loss	-	-	-	(4,039 )	(4,039 )
Balance at March 31, 2019	42,602,431	\$ 426	\$ 116,096	\$ (50,971)	\$ 65,551

*See Accompanying Notes to the Consolidated Financial Statements.*



**Hudson Technologies, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****Decrease in Cash and Cash Equivalents****(unaudited)**

(Amounts in thousands)

	Three-month period ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$(4,039)	\$(3,056 )
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation	1,058	1,012
Amortization of intangible assets	721	742
Amortization of step-up of basis in inventories	-	1,080
Amortization of lease right of use asset, net	20	-
Lower of cost or net realizable value adjustment	(2,895)	-
Allowance for doubtful accounts	(243 )	4
Value of share-based payment arrangements	377	27
Amortization of deferred finance costs	307	241
Deferred tax benefit	72	(1,064 )
Changes in assets and liabilities:		
Trade accounts receivable	(5,795)	(12,026)
Inventories	5,085	472
Prepaid and other assets	43	2,911
Accounts payable and accrued expenses	3,425	19,160
Cash (used in) provided by operating activities	(1,864)	9,503
Cash flows from investing activities:		
Additions to property, plant, and equipment	(165 )	(206 )
Cash used in investing activities	(165 )	(206 )
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	17
Proceeds (repayment) of short-term debt	2,000	(13,075)
Repayment of long-term debt	(1,073)	(263 )
Cash provided by (used in) financing activities	927	(13,321)
Decrease in cash and cash equivalents	(1,102)	(4,024 )

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Cash and cash equivalents at beginning of period	2,272	5,002
Cash and cash equivalents at end of period	\$1,170	\$978
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for interest	\$3,906	\$2,930
Cash paid during period for taxes	\$8	\$—

*See Accompanying Notes to the Consolidated Financial Statements.*

**Hudson Technologies, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**Note 1 - Summary of Significant Accounting Policies**

**Business**

Hudson Technologies, Inc., incorporated under the laws of New York on January 11, 1991, is a refrigerant services company providing innovative solutions to recurring problems within the refrigeration industry. The Company's operations consist of one reportable segment. The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, and include refrigerant and industrial gas sales, refrigerant management services consisting primarily of reclamation of refrigerants and RefrigerantSide® Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants. In addition, the Company's SmartEnergy OPS® service is a web-based real time continuous monitoring service applicable to a facility's refrigeration systems and other energy systems. The Company's Chiller Chemistry® and Chill Smart® services are also predictive and diagnostic service offerings. As a component of the Company's products and services, the Company also participates in the generation of carbon offset projects. The Company operates principally through its wholly-owned subsidiaries, Hudson Technologies Company and Aspen Refrigerants, Inc. Unless the context requires otherwise, references to the "Company", "Hudson", "we", "us", "our", or similar pronouns refer to Hudson Technologies, Inc. and its subsidiaries.

In preparing the accompanying consolidated financial statements, and in accordance with Accounting Standards Codification (ASC) 855-10 "Subsequent Events", the Company's management has evaluated subsequent events through the date that the financial statements were filed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial information included in this quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the year ended December 31, 2018. Operating results for the three-month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

In the opinion of management, all estimates and adjustments considered necessary for a fair presentation have been included and all such adjustments were normal and recurring.

## **Consolidation**

The consolidated financial statements represent all companies of which Hudson directly or indirectly has majority ownership or otherwise controls. Significant intercompany accounts and transactions have been eliminated. The Company's consolidated financial statements include the accounts of wholly-owned subsidiaries Hudson Holdings, Inc., Hudson Technologies Company and Aspen Refrigerants, Inc. The Company does not present a statement of comprehensive income (loss) as its comprehensive income (loss) is the same as its net income (loss).

## **Fair Value of Financial Instruments**

The carrying values of financial instruments including trade accounts receivable and accounts payable approximate fair value at March 31, 2019 and December 31, 2018, because of the relatively short maturity of these instruments. The carrying value of debt approximates fair value, due to the variable rate nature of the debt, as of March 31, 2019 and December 31, 2018.

## **Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of temporary cash investments and trade accounts receivable. The Company maintains its temporary cash investments in highly-rated financial institutions and, at times, the balances exceed FDIC insurance coverage. The Company's trade accounts receivables are primarily due from companies throughout the United States. The Company reviews each customer's credit history before extending credit.

The Company establishes an allowance for doubtful accounts based on factors associated with the credit risk of specific accounts, historical trends, and other information. The carrying value of the Company's accounts receivable is reduced by the established allowance for doubtful accounts. The allowance for doubtful accounts includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve for the remaining accounts receivable balances. The Company adjusts its reserves based on factors that affect the collectability of the accounts receivable balances.

For the three-month period ended March 31, 2019, there was one customer accounting for 15% of the Company's revenues. At March 31, 2019 there was \$3.0 million of accounts receivable from this customer.

For the three-month period ended March 31, 2018, there was one customer accounting for 11% of the Company's revenues. At March 31, 2018 there was \$4.0 million of accounts receivable from this customer.

The loss of a principal customer or a decline in the economic prospects of and/or a reduction in purchases of the Company's products or services by any such customer could have a material adverse effect on the Company's operating results and financial position.

### **Cash and Cash Equivalents**

Temporary investments with original maturities of ninety days or less are included in cash and cash equivalents.

### **Inventories**

Inventories, consisting primarily of refrigerant products available for sale, are stated at the lower of cost, on a first-in first-out basis, or net realizable value. Where the market price of inventory is less than the related cost, the Company may be required to write down its inventory through a lower of cost or net realizable value adjustment, the impact of which would be reflected in cost of sales on the Consolidated Statements of Operations. Any such adjustment would be based on management's judgment regarding future demand and market conditions and analysis of historical experience.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost, including internally manufactured equipment. The cost to complete equipment that is under construction is not considered to be material to the Company's financial position. Provision for depreciation is recorded (for financial reporting purposes) using the straight-line method over the useful lives of the respective assets. Leasehold improvements are amortized on a straight-line basis over the shorter of economic life or terms of the respective leases. Costs of maintenance and repairs are charged to expense when incurred.

Due to the specialized nature of the Company's business, it is possible that the Company's estimates of equipment useful life periods may change in the future.

## **Goodwill**

The Company has made acquisitions that included a significant amount of goodwill and other intangible assets. The Company applies the purchase method of accounting for acquisitions, which among other things, requires the recognition of goodwill (which represents the excess of the purchase price of the acquisition over the fair value of the net assets acquired and identified intangible assets). We test our goodwill for impairment on an annual basis (the first day of the fourth quarter) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset below its carrying value. Other intangible assets that meet certain criteria are amortized over their estimated useful lives.

Beginning in 2017, the Company adopted, on a prospective basis, ASU No. 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step 2 of the current goodwill impairment test that requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, a company will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. An impairment charge would be recognized when the carrying amount exceeds the estimated fair value of a reporting unit. These impairment evaluations use many assumptions and estimates in determining an impairment loss, including certain assumptions and estimates related to future earnings. If the Company does not achieve its earnings objectives, the assumptions and estimates underlying these impairment evaluations could be adversely affected, which could result in an asset impairment charge that would negatively impact operating results.

In 2018, due to a significant selling price correction leading to unfavorable market conditions, the Company performed a quantitative test by weighing the results of an income-based valuation technique, the discounted cash flows method, and a market-based valuation technique to determine its fair value. The Company initially established a forecast of the estimated future net cash flows, which were then discounted to their present value using a market rate of return. There were no impairment losses recognized in 2018 or the quarter ended March 31, 2019.

## Revenues and Cost of Sales

Beginning on January 1, 2018, the Company adopted, on a modified retrospective basis, Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, which provides accounting guidance related to the recognition of revenue from contracts with customers. Based on the evaluation performed, the Company concluded that the adoption of this standard had no impact on its financial position, results of operations or cash flows and did not have a significant impact on its internal controls over financial reporting.

The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems. Most of the Company's revenues are realized from the sale of refrigerant and industrial gases and related products. The Company also generates revenue from refrigerant management services performed at a customer's site and in-house. The Company conducts its business primarily within the US.

The Company applies the FASB's guidance on revenue recognition, which requires the Company to recognize revenue in an amount that reflects the consideration the Company expects to be entitled in exchange for goods or services transferred to its customers. In most instances, the Company's contract with a customer is the customer's purchase order and the sales price to the customer is fixed. For certain customers, the Company may also enter into a sales agreement outlining a framework of terms and conditions applicable to future purchase orders received from that customer. Because the Company's contracts with customers are typically for a single customer purchase order, the duration of the contract is usually less than one year. The Company's performance obligations related to product sales are satisfied at a point in time, which may occur upon shipment of the product or receipt by the customer, depending on the terms of the arrangement. The Company's performance obligations related to reclamation and RefrigerantSide® services are generally satisfied at a point in time when the service is performed. Accordingly revenues are recorded upon the shipment of the product, or in certain instances upon receipt by the customer, or the completion of the service.

In July 2016 the Company was awarded, as prime contractor, a five-year contract, including a five-year renewal option, by the United States Defense Logistics Agency ("DLA") for the management, supply, and sale of refrigerants, compressed gases, cylinders and related services. Due to the contract containing multiple performance obligations, the Company assessed the arrangement in accordance with ASC 606. The Company determined that the sale of refrigerants and the management services provided under the contract each have stand-alone value. Accordingly, the performance obligations related to the sale of refrigerants is satisfied at a point in time, mainly when the customer receives and obtains control of the product. The performance obligation related to management service revenue is satisfied over time and revenue is recognized on a straight-line basis over the term of the arrangement as the management services are provided; such management fees are included in the below table as Product and related sales and were approximately \$0.6 million for each of the three months ended March 31, 2019 and 2018.

Cost of sales is recorded based on the cost of products shipped or services performed and related direct operating costs of the Company's facilities. In general, the Company performs shipping and handling services for its customers in connection with the delivery of refrigerant and other products. In accordance with ASC 606-10-25-18B, the Company has elected to account for such shipping and handling as activities to fulfill the promise to transfer the good. To the extent that the Company charges its customers shipping fees, such amounts are included as a component of revenue and the corresponding costs are included as a component of cost of sales.

The Company's revenues are derived from Product and related sales and RefrigerantSide® Services revenues. The revenues for each of these lines are as follows:

Periods Ended March 31,	2019	2018
(in thousands)		
Product and related sales	\$33,227	\$41,101
RefrigerantSide® Services	1,437	1,327
Total	\$34,664	\$42,428



## Income Taxes

The Company is taxed at statutory corporate income tax rates after adjusting income reported for financial statement purposes for certain items. Current income tax expense (benefit) reflects the tax results of revenues and expenses currently taxable or deductible. The Company utilizes the asset and liability method of accounting for deferred income taxes, which provides for the recognition of deferred tax assets or liabilities, based on enacted tax rates and laws, for the differences between the financial and income tax reporting bases of assets and liabilities.

The tax benefit associated with the Company's net operating loss carry forwards ("NOLs") is recognized to the extent that the Company expects to realize future taxable income. As a result of a prior year "change in control", as defined by the Internal Revenue Service, the Company's ability to utilize its existing NOLs is subject to certain annual limitations. To the extent that the Company utilizes its NOLs, it will not pay tax on such income. However, to the extent that the Company's net income, if any, exceeds the annual NOL limitation, it will pay income taxes based on the then existing statutory rates. In addition, certain states either do not allow or limit NOLs and as such the Company will be liable for certain state income taxes.

As of March 31, 2019, the Company had NOLs of approximately \$37.4 million, of which \$32.0 million have no expiration date (subject to annual limitations of 80% of tax earnings) and \$5.4 million expire through 2023 (subject to annual limitations of approximately \$1.3 million). As of March 31, 2019, the Company had state tax NOLs of approximately \$22.0 million expiring in various years. We review the likelihood that we will realize the benefit of our deferred tax assets, and therefore the need for valuation allowances, on an annual basis in the fourth quarter of the year, and more frequently if events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results are considered, along with all other available positive and negative evidence.

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence that is objective and verifiable, such as cumulative losses in recent years. We utilize a rolling twelve quarters of pre-tax income or loss adjusted for significant permanent book to tax differences, as well as non-recurring items, as a measure of our cumulative results in recent years. Based on the cumulative operating loss experienced through December 31, 2018, our analysis indicated that we had cumulative three year historical losses on this basis, which represented significant negative evidence that is objective and verifiable and, therefore, difficult to overcome. Based on our assessment as of December 31, 2018, we concluded that due to the uncertainty that the deferred tax assets will not be fully realized in the future, we recorded a net valuation allowance of approximately \$11.3 million during the period ended December 31, 2018 and increased it to \$13.3 million as of March 31, 2019 due to additional losses.

As a result of an Internal Revenue Service audit, the 2013 and prior federal tax years have been closed. The Company operates in many states throughout the United States and, as of March 31, 2019, the various states' statutes of

limitations remain open for tax years subsequent to 2010. The Company recognizes interest and penalties, if any, relating to income taxes as a component of the provision for income taxes.

The Company evaluates uncertain tax positions, if any, by determining if it is more likely than not to be sustained upon examination by the taxing authorities. As of March 31, 2019, and December 31, 2018, the Company believes it has no uncertain tax positions.

### Loss per Common and Equivalent Shares

If dilutive, common equivalent shares (common shares assuming exercise of options) utilizing the treasury stock method are considered in the presentation of diluted (loss) earnings per share. The reconciliation of shares used to determine net (loss) income per share is as follows (dollars in thousands, unaudited):

	Three Month Period Ended March 31,	
	2019	2018
Net loss	\$(4,039 )	\$(3,056 )
Weighted average number of shares - basic	42,602,431	42,403,029
Shares underlying options	-	-
Weighted average number of shares outstanding - diluted	42,602,431	42,403,029

During the three-month periods ended March 31, 2019 and 2018, certain options aggregating 4,673,897 shares and 2,948,848 shares, respectively, have been excluded from the calculation of diluted shares, due to the fact that their effect would be anti-dilutive.

## Estimates and Risks

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions that affect the amounts reported in these financial statements and footnotes. The Company considers these accounting estimates to be critical in the preparation of the accompanying consolidated financial statements. The Company uses information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. Additionally, these estimates may not ultimately reflect the actual amounts of the final transactions that occur. The Company utilizes both internal and external sources to evaluate potential current and future liabilities for various commitments and contingencies. In the event that the assumptions or conditions change in the future, the estimates could differ from the original estimates.

Several of the Company's accounting policies involve significant judgments, uncertainties and estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management's judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, inventory reserves, and valuation allowance for the deferred tax assets relating to its NOLs and commitments and contingencies. With respect to accounts receivable, the Company estimates the necessary allowance for doubtful accounts based on both historical and anticipated trends of payment history and the ability of the customer to fulfill its obligations. For inventory, the Company evaluates both current and anticipated sales prices of its products to determine if a write down of inventory to net realizable value is necessary. In determining the Company's valuation allowance for its deferred tax assets, the Company assesses its ability to generate taxable income in the future.

The Company participates in an industry that is highly regulated, and changes in the regulations affecting our business could affect our operating results. Currently the Company purchases virgin hydrochlorofluorocarbon ("HCFC") and hydrofluorocarbon ("HFC") refrigerants and reclaimable, primarily HCFC, HFC and chlorofluorocarbon ("CFC"), refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the "Act") prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants. Effective January 2004, the Act further limited the production of virgin HCFC refrigerants and federal regulations were enacted which established production and consumption allowances for HCFC refrigerants which imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. In October 2014, the EPA published a final rule providing further reductions in the production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019 (the "Final Rule"). In the Final Rule, the EPA established a linear draw down for the production or importation of virgin HCFC-22 that started at approximately 22 million pounds in 2015 and was reduced by approximately 4.5 million pounds each year ending at zero in 2020.

To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand and/or price for refrigerants sold by the Company, the Company could realize reductions in revenue from refrigerant sales, which could have a material adverse effect on its operating results and its financial position.

The Company is subject to various legal proceedings. The Company assesses the merit and potential liability associated with each of these proceedings. In addition, the Company estimates potential liability, if any, related to these matters. To the extent that these estimates are not accurate, or circumstances change in the future, the Company could realize liabilities, which could have a material adverse effect on its operating results and its financial position.

### **Impairment of Long-lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

## **Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses." This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and for interim periods therein. The Company does not expect the amended standard to have a material impact on the Company's results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. In July 2018, the FASB issued ASU No. 2018-11, Leases – Targeted Improvements, as an update to the previously-issued guidance. This update added a transition option which allows for the recognition of a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption without recasting the financial statements in periods prior to adoption. We have used the modified retrospective transition approach in ASU No. 2018-11 and applied the new lease requirements through a cumulative-effect adjustment in the period of adoption. We elected the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We also elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of operations on a straight-line basis over the lease term. We recorded approximately \$8.1 million as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of January 1, 2019. The Company's accounting for finance leases remained substantially unchanged. Disclosures relating to the amount, timing and uncertainty of cash flows arising from leases are included in Note 5.

## **Note 2 - Fair Value**

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based upon observable inputs used in the valuation techniques, the Company is required to provide information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values into three broad levels as follows:

Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities include certain unobservable inputs in the assumptions and projections used in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

### Note 3 - Inventories

Inventories consist of the following:

	March 31, 2019	December 31, 2018
<b>(in thousands)</b>		
Refrigerant and cylinders	\$ 110,263	\$ 115,348
Less: net realizable value adjustments	(10,491 )	(13,386 )
Total	\$ 99,772	\$ 101,962

**Note 4 - Property, plant and equipment**

Elements of property, plant and equipment are as follows:

	<b>March 31,</b>	<b>December 31,</b>	<b>Estimated</b>
<b>(in thousands)</b>	<b>2019</b>	<b>2018</b>	<b>Lives</b>
Property, plant and equipment			
- Land	\$ 1,255	\$ 1,255	
- Land improvements	319	319	6-10 years
- Buildings	1,446	1,446	25-39 years
- Building improvements	3,045	3,045	25-39 years
- Cylinders	13,359	13,369	15-30 years
- Equipment	24,236	24,078	3-10 years
- Equipment under capital lease	315	315	5-7 years
- Vehicles	1,607	1,535	3-5 years
- Lab and computer equipment, software	3,090	3,090	2-8 years
- Furniture & fixtures	684	684	5-10 years
- Leasehold improvements	873	873	3-5 years
- Equipment under construction	409	464	
Subtotal	50,638	50,473	
Accumulated depreciation	24,136	23,078	
Total	\$ 26,502	\$ 27,395	

Depreciation expense for the three months ended March 31, 2019 and 2018 was \$1.1 million and \$1.0 million, respectively.

**Note 5- Leases**

The Company has various lease agreements with terms up to 11 years, including leases of buildings and various equipment. Some leases include options to purchase, terminate or extend for one or more years. These options are included in the lease term when it is reasonably certain that the option will be exercised.

At inception, the Company determines if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g. minimum rent payments) and non-lease components (e.g. common area maintenance, charges, utilities and property taxes). The Company elected the package of practical expedients permitted under the transition guidance, which allows us to carry forward our historical lease classification, our assessment on whether a contract contains a lease, and our initial direct costs for any leases that exist prior to the adoption of the new standard. We also elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of operations on a straight line basis over the lease term. The Company's lease agreements do not contain any material residual value, guarantees or material restrictive covenants.

Operating leases are included in Right of use asset, Accrued expenses and other current liabilities, and Long-term lease liabilities on the consolidated balance sheets. These assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term using the Company's secured incremental borrowing rates or implicit rates, when readily determinable. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the balance sheet. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Variable lease expense is recognized in the period in which the obligation for those payments is incurred.

Lease expense is included in selling, general and administrative on the consolidated statements of operations and is reported net of lease income. Lease income is not material to the results of operations for the quarter ended March 31, 2019.



The following table presents information about the amount, timing and uncertainty of cash flows arising from the Company's operating leases as of March 31, 2019.

Maturity of Lease Payments (in thousands)	March 31, 2019
-2019 (remaining)	\$ 2,211
-2020	2,039
-2021	1,590
-2022	701
-2023	520
-Thereafter	3,422
Total undiscounted operating lease payments	10,483
Less imputed interest	(2,900 )
Present value of operating lease liabilities	\$ 7,583

#### *Balance Sheet Classification*

Current lease liabilities (recorded in accrued expenses and other current liabilities)	\$ 1,987
Long-term lease liabilities	5,596
Total operating lease liabilities	\$7,583

#### *Other Information*

Weighted-average remaining term for operating leases	6.6 years
Weighted -average discount rate for operating leases	8.74 %

#### *Cash Flows*

An initial right-of-use asset of \$8.1 million was recognized as a non-cash asset addition with the adoption of the new lease accounting standard. Cash paid for amounts included in the present value of operating lease liabilities was \$0.7 million during first quarter 2019 and is included in operating cash flows.

*Operating Lease Costs*

Operating lease costs were \$0.7 million for both first quarter 2019 and first quarter 2018.

As of December 31, 2018, future commitments under operating leases, in accordance with legacy lease accounting standards, are summarized as follows:

**Years ended December 31, Amount**  
*(in thousands)*

-2019	\$ 2,952
-2020	2,055
-2021	1,619
-2022	684
-2023	498
Thereafter	3,422
Total	\$ 11,230

**Note 6 - Goodwill and intangible assets**

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase method of accounting. In 2018, due to a significant selling price correction leading to unfavorable market conditions, the Company performed a quantitative test by weighting the results of an income-based valuation technique, the discounted cash flows method, and a market-based valuation technique to determine its reporting units' fair values.

Based on the results of the impairment assessments of goodwill and other intangible assets performed in 2018, the Company concluded that it is more likely than not that the fair value of its goodwill exceeds the carrying value and that there are no impairment indicators related to intangible assets.

At March 31, 2019 the Company had \$47.8 million of goodwill, of which \$47 million is attributable to the acquisition of ARI on October 10, 2017.

The Company's other intangible assets consist of the following:

(in thousands)	Amortization Period (in years)	March 31, 2019			December 31, 2018		
		Gross Carrying Amount	Accumulated Amortization Net		Gross Carrying Amount	Accumulated Amortization Net	
Intangible Assets with determinable lives							
Patents	5	\$386	\$ 381	\$5	\$386	\$ 380	\$6
Covenant Not to Compete	6 - 10	1,270	667	603	1,270	629	641
Customer Relationships	10 - 12	31,660	4,598	27,062	31,660	3,952	27,708
Above Market Leases	13	567	65	502	567	54	513
Licenses	10	1,000	442	558	1,000	417	583
Totals identifiable intangible assets		\$34,883	\$ 6,153	\$28,730	\$34,883	\$ 5,432	\$29,451

Amortization expense for the three months ended March 31, 2019 and 2018 was \$721 and \$742, respectively. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. No impairments were recognized for the period ended March 31, 2019 and for the year ended December 31, 2018.

## Note 7 - Share-based compensation

Share-based compensation represents the cost related to share-based awards, typically stock options or stock grants, granted to employees, non-employees, officers and directors. Share-based compensation is measured at grant date, based on the estimated aggregate fair value of the award on the grant date, and such amount is charged to compensation expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. For the three-month periods ended March 31, 2019 and 2018, share-based compensation expense of \$377,000 and \$27,000, respectively, are reflected in general and administrative expenses in the consolidated Statements of Operations.

Share-based awards have historically been made as stock options, and recently also as stock grants, issued pursuant to the terms of the Company's stock option and stock incentive plans, (collectively, the "Plans"), described below. The Plans may be administered by the Board of Directors or the Compensation Committee of the Board or by another committee appointed by the Board from among its members as provided in the Plans. Presently, the Plans are administered by the Company's Compensation Committee of the Board of Directors. As of March 31, 2019, the Plans authorized the issuance of 7,000,000 shares of the Company's common stock and, as of March 31, 2019 there were 2,884,509 shares of the Company's common stock available for issuance for future stock option grants or other stock-based awards.

Stock option awards, which allow the recipient to purchase shares of the Company's common stock at a fixed price, are typically granted at an exercise price equal to the Company's stock price at the date of grant. Typically, the Company's stock option awards have vested from immediately to two years from the grant date and have had a contractual term ranging from three to ten years.

Effective September 10, 2004, the Company adopted its 2004 Stock Incentive Plan ("2004 Plan") pursuant to which 2,500,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either incentive stock options ("ISOs") under the Internal Revenue Code of 1986, as amended (the "Code") or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs could be granted under the 2004 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards could be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights could also be issued in tandem with stock options. Effective September 10, 2014, the Company's ability to grant options or other awards under the 2004 Plan expired.

Effective August 27, 2008, the Company adopted its 2008 Stock Incentive Plan ("2008 Plan") pursuant to which 3,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2008 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights could also be issued in tandem with stock options. Effective August 27, 2018, the Company's ability to grant options or other awards under the 2008 Plan expired.

Effective September 17, 2014, the Company adopted its 2014 Stock Incentive Plan ("2014 Plan") pursuant to which 3,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2014 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights may also be issued in tandem with stock options. Unless the 2014 Plan is sooner terminated, the ability to grant options or other awards under the 2014 Plan will expire on September 17, 2024.

ISOs granted under the 2014 Plan may not be granted at a price less than the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of persons holding 10% or more of the voting stock of the Company). Nonqualified options granted under the 2014 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2014 Plan expire not more than ten years from the date of grant (five years in the case of ISOs granted to persons holding 10% or more of the voting stock of the Company). Certain options granted may contain a barrier price whereby the options are cancelled once the stock price declines below a predetermined barrier price for five consecutive trading days.

Effective June 7, 2018, the Company adopted its 2018 Stock Incentive Plan (“2018 Plan”) pursuant to which 4,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2018 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights may also be issued in tandem with stock options. Unless the 2018 Plan is sooner terminated, the ability to grant options or other awards under the 2018 Plan will expire on June 7, 2028.

ISOs granted under the 2018 Plan may not be granted at a price less than the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of persons holding 10% or more of the voting stock of the Company). Nonqualified options granted under the 2018 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2018 Plan expire not more than ten years from the date of grant (five years in the case of ISOs granted to persons holding 10% or more of the voting stock of the Company). Certain options granted may contain a barrier price whereby the options are cancelled once the stock price declines below a predetermined barrier price for five consecutive trading days.

All stock options have been granted to employees and non-employees at exercise prices equal to or in excess of the market value on the date of the grant.

The Company determines the fair value of share-based awards at the grant date by using the Black-Scholes option-pricing model, and is incorporating the simplified method to compute expected lives of share-based awards. There were options to purchase 258,500 and 20,000 shares of common stock granted during the three-month periods ended March 31, 2019 and 2018, respectively.

A summary of the activity for stock options issued under the Company’s Plans for the indicated periods is presented below:

Stock Option Totals	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	3,069,440	\$ 4.28
-Exercised	(5,000 )	\$ 3.43
-Granted	3,874,200	\$ 1.19
-Cancelled	(2,523,243 )	\$ 4.92
Outstanding at December 31, 2018	4,415,397	\$ 1.20

-Granted	258,500	\$ 1.25
Outstanding at March 31, 2019	4,673,897	\$ 1.20

The following is the weighted average contractual life in years and the weighted average exercise price at March 31, 2019 of:

	<b>Weighted</b>	<b>Weighted</b>
	<b>Average</b>	<b>Average</b>
	<b>Remaining</b>	<b>Exercise</b>
<b>Number of</b>	<b>Contractual</b>	
<b>Options</b>	<b>Life</b>	<b>Price</b>
Options outstanding and vested	3,048,602 2.51 years	\$ 1.25

The intrinsic value of options outstanding at March 31, 2019 and December 31, 2018 are \$3.6 million and none, respectively.

The intrinsic value of options unvested at March 31, 2019 and December 31, 2018 are approximately \$1.4 million and none, respectively.

The intrinsic value of options vested and exercised during the three months ended March 31, 2019 and 2018 were none and \$13,950, respectively.

**Note 8 - Short-term and long-term debt**

Elements of short-term and long-term debt are as follows:

	<b>March 31,    December 31,</b>	
	<b>2019</b>	<b>2018</b>
(in thousands)		
Short-term & long-term debt		
Short-term debt:		
- Revolving credit line and other debt	\$ 31,000	\$ 29,000
- Long-term debt: current	2,127	2,672
Subtotal	33,127	31,672
Long-term debt:		
- Term Loan Facility	101,063	101,588
- Vehicle and equipment loans	1	4
- Capital lease obligations	7	6
- Less: deferred financing costs on term loan	(3,153 )	(3,325 )
Subtotal	97,918	98,273
Total short-term & long-term debt	\$ 131,045	\$ 129,945

*Bank Credit Line*

On October 10, 2017, Hudson Technologies Company (“HTC”), Hudson Holdings, Inc. (“Holdings”) and Aspen Refrigerants, Inc. (“ARI”), as borrowers (collectively, the “Borrowers”), and the Company as a guarantor, became obligated under an Amended and Restated Revolving Credit and Security Agreement (the “PNC Facility”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”), PNC Capital Markets LLC as lead arranger and sole bookrunner, and such other lenders as may thereafter become a party to the PNC Facility.

Under the terms of the PNC Facility, the Borrowers may borrow, from time to time, up to \$150 million at any time consisting of revolving loans in a maximum amount up to the lesser of \$150 million and a borrowing base that is calculated based on the outstanding amount of the Borrowers’ eligible receivables and eligible inventory, as described in the PNC Facility. The PNC Facility also contains a sublimit of \$15 million for swing line loans and \$5 million for letters of credit.



Amounts borrowed under the PNC Facility were used by the Borrowers to consummate the acquisition of ARI and for working capital needs, certain permitted future acquisitions, and to reimburse drawings under letters of credit. At March 31, 2019, total borrowings under the PNC Facility were \$31.0 million, and total availability was approximately \$36.1 million. In addition, there was a \$130,000 outstanding letter of credit at March 31, 2019.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. Interest charges with respect to loans were initially computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus 0.5% and (3) the daily LIBOR plus 1.0%, plus (ii) between 0.50% and 1.00% depending on average quarterly undrawn availability and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus between 1.50% and 2.00% depending on average quarterly undrawn availability.

Borrowers and the Company granted to the Agent, for the benefit of the lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The PNC Facility contains a financial covenant requiring the Company to maintain at all times a Fixed Charge Coverage Ratio (FCCR) of not less than 1.00 to 1.00, as of the end of each trailing period of four consecutive quarters. The FCCR (as defined in the PNC Facility) is the ratio of (a) EBITDA for such period, minus unfinanced capital expenditures made during such period, minus the aggregate amount of cash taxes paid during such period, to (b) the aggregate amount of all scheduled payments of principal (excluding principal payments relating to outstanding revolving loans under the PNC Facility) and all cash payments of interest, plus cash dividends and distributions made during such period, plus payments in respect of capital lease obligations made during such period.

On December 6, 2017, the Borrowers and the Company as a guarantor, entered into a First Amendment to Amended and Restated Revolving Credit and Security Agreement (the “First Amendment”) with PNC. The First Amendment, which was entered into in connection with the syndication of the credit facility, amended the PNC Facility to allow syndicate lenders to provide certain cash management and hedging products and services to the Borrowers, and made amendments to the PNC Facility with respect to lender approval requirements of specified matters and other administrative matters.

On November 30, 2018, the Borrowers and the Company as a guarantor, entered into a Second Amendment to Amended and Restated Revolving Credit and Security Agreement, Consent and Waiver (the “Second Revolver Amendment”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”) and the lenders thereunder.

The Second Revolver Amendment amends the Amended and Restated Revolving Credit and Security Agreement dated October 10, 2017 (as amended to date, the “PNC Facility”), to replace the existing fixed charge coverage ratio until September 30, 2019 with an EBITDA covenant requiring minimum EBITDA for the four fiscal quarters ended on the following dates: September 30, 2018 - \$9,240,000; December 31, 2018 - \$9,428,000; March 31, 2019 - \$9,270,000; June 30, 2019 - \$14,195,000. The minimum fixed charge coverage ratio of 1.00:1.00 shall recommence for the quarter ending September 30, 2019.

The Second Revolver Amendment also increases the applicable interest rate margin to 3% for Eurodollar Rate Loans (as defined in the PNC Facility) and 2% for Domestic Rate Loans (as defined in the PNC Facility) through September 30, 2019, with applicable margins thereafter of between 2.5% and 3% for Eurodollar Rate Loans and 1.5% and 2% for Domestic Rate Loans based on the applicable fixed charge coverage ratio. In connection with the Second Revolver Amendment, the Borrowers also paid the Agent a waiver and amendment fee of \$250,000.

On April 17, 2019, the Borrowers, the Company as a guarantor, and ten new subsidiaries of the Borrowers (the “New Subsidiaries”), entered into a Third Amendment and Joinder to Amended and Restated Revolving Credit and Security Agreement and Waiver (the “Third Revolver Amendment”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”) and the lenders thereunder. Pursuant to the Third Amendment, the New Subsidiaries were added as guarantors under the PNC Facility.

The Company evaluated the First, Second and Third Revolver Amendments in accordance with the provisions of ASC 470 to determine if the Amendments were a modification or an extinguishment of debt and concluded that amendments were a modification of the original term loan agreement for accounting purposes. As a result, the Company capitalized an additional \$250,000 of deferred financing costs in connection with the Second Amendment, which are being amortized over the remaining term.

The PNC Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on Borrowers' ability to pay dividends on common stock or preferred stock, and also includes certain events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, impairments to guarantees and a change of control.

The commitments under the PNC Facility will expire and the full outstanding principal amount of the loans, together with accrued and unpaid interest, are due and payable in full on October 10, 2022, unless the commitments are terminated and the outstanding principal amount of the loans are accelerated sooner following an event of default.

In connection with the closing of the PNC Facility, the Company also entered into an Amended and Restated Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the "Revolver Guarantee"), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to PNC, as Agent for the benefit of the revolving lenders.

#### *Term Loan Facility*

On October 10, 2017, HTC, Holdings, and ARI, as borrowers, and the Company, as guarantor, became obligated under a Term Loan Credit and Security Agreement (the "Term Loan Facility") with U.S. Bank National Association, as administrative agent and collateral agent ("Term Loan Agent") and funds advised by FS Investments and such other lenders as may thereafter become a party to the Term Loan Facility (the "Term Loan Lenders").

Under the terms of the Term Loan Facility, the Borrowers immediately borrowed \$105 million pursuant to a term loan (the “Initial Term Loan”) and could borrow up to an additional \$25 million for a period of eighteen months after closing to fund additional permitted acquisitions (the “Delayed Draw Commitment”, and together with the Initial Term Loan, the “Term Loans”).

On June 29, 2018, HTC, Holdings and ARI, as borrowers, and the Company as a guarantor, entered into a Limited Waiver and First Amendment to Term Loan Credit and Security Agreement and Other Documents (the “First Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. The First Amendment terminated the Delayed Draw Commitment and provided an interim waiver with respect to compliance with the existing TLR covenant at June 30, 2018.

The Term Loans mature on October 10, 2023. Principal payments on the Term Loans are required on a quarterly basis, commencing with the quarter ended March 31, 2018, in the amount of 1% per annum of the original principal of the outstanding Term Loans. Commencing with the fiscal year ending December 31, 2018, the Term Loan Facility also requires annual principal payments of up to 50% of Excess Cash Flow (as defined in the Term Loan Facility) if the Company’s Total Leverage Ratio (as defined in the Term Loan Facility) for the applicable year is greater than 2.75 to 1.00. The Term Loan Facility also requires mandatory prepayments of the Term Loans in the event of certain asset dispositions, debt issuances, and casualty and condemnation events. The Term Loans may be prepaid at the option of the Borrowers at par in an amount up to \$30 million. Additional prepayments are permitted after the first anniversary of the closing date and were originally subject to a prepayment premium of 3% in year two, 1% in year three and zero in year four and thereafter.

Interest on the Term Loans is generally payable on the earlier of the last day of the interest period applicable to such Eurodollar rate loan and the last day of the Term Loan Facility, as applicable. Interest was originally payable at the rate per annum of the Eurodollar Rate (as defined in the Term Loan Facility) plus 7.25%. The Borrowers have the option of paying 3.00% interest per annum in kind by adding such amount to the principal of the Term Loans during no more than five fiscal quarters during the term of the Term Loan Facility.

Borrowers and the Company granted to the Term Loan Agent, for the benefit of the Term Loan Lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The Term Loan Facility originally contained a financial covenant requiring the Company to maintain a Total Leverage Ratio (TLR) of not greater than 4.75 to 1.00, tested as of the last day of the fiscal quarter. The Term Loan Facility was amended on August 14, 2018, including a waiver of the TLR covenant at June 30, 2018, as described below. The TLR (as defined in the Term Loan Facility) is the ratio of (a) funded debt as of such day to (b) EBITDA for the four consecutive fiscal quarters ending on the last day of such fiscal quarter. Funded debt (as defined in the Term Loan

Facility) includes amounts borrowed under the PNC Facility and the Term Loan Facility as well as capitalized lease obligations and other indebtedness for borrowed money maturing more than one year from the date of creation thereof. As of March 31, 2019 and December 31, 2018, the TLR was approximately 12.47 to 1 and 11.82 to 1, respectively.

The Term Loan Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on their ability to pay dividends on common stock or preferred stock, and also includes certain events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, impairments to guarantees and a change of control.

In connection with the closing of the Term Loan Facility, the Company also entered into a Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the “Term Loan Guarantee”), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to Term Loan Agent, as agent for the benefit of the Term Loan Lenders.

The Term Loan Agent and the Agent have entered into an intercreditor agreement governing the relative priority of their security interests granted by the Borrowers and the Guarantor in the collateral, providing that the Agent shall have a first priority security interest in the accounts receivable, inventory, deposit accounts and certain other assets (the “Revolving Credit Priority Collateral”) and the Term Loan Agent shall have a first priority security interest in the equipment, real property, capital stock of subsidiaries and certain other assets (the “Term Loan Priority Collateral”).

On August 14, 2018, HTC, Holdings and ARI, as borrowers, and the Company as a guarantor, entered into a Waiver and Second Amendment to Term Loan Credit and Security Agreement (the “Second Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. The Second Amendment superseded interim waivers and amended the Term Loan Facility, to waive compliance with the existing TLR covenant at June 30, 2018.

In addition, the Second Amendment also: (i) increases the interest rate by 300 basis points effective July 1, 2018; (ii) waives the existing prepayment premium in the Term Loan Facility in the event the term loan is repaid in full prior to March 31, 2020; (iii) adds an exit fee equal to three percent (3.00%) of the outstanding principal balance of the term loans on the date of the Second Amendment (provided, that payment of the exit fee is waived in the event that the term loan is repaid in full prior to January 1, 2020, and provided further that the exit fee is reduced to one-and-one-half percent (1.50%) in the event that the term loan is repaid in full on or after January 1, 2020 but prior to March 31, 2020); (iv) restricted acquisitions and other equity investments prior to September 30, 2018; and (v) required payment of a one-time waiver fee equal to one percent (1.00%) of the outstanding term loans.

On November 30, 2018, the Borrowers, and the Company as a guarantor, entered into a Waiver and Third Amendment to Term Loan Credit and Security Agreement (the “Third Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder.

The Third Amendment superseded interim waivers and amended the Term Loan Facility to reset the maximum Total Leverage Ratio covenant contained in the Term Loan Facility at the indicated dates as follows: (i) June 30, 2018 - 10.15:1.00; (ii) September 30, 2018 - 12.45:1.00; (iii) December 31, 2018 - 12.75:1.00; (iv) March 31, 2019 - 12.95:1.00; (v) June 30, 2019 - 8.25:1.00; September 30, 2019 - 6.40:1.00; (vi) December 31, 2019 - 5.70:1.00; and (vii) March 31, 2020 and each fiscal quarter thereafter - 4.75:1.00.

The Third Amendment increased the scheduled quarterly principal repayments to \$525,000 effective December 31, 2018. In addition the Third Amendment requires a further repayment of principal on or before November 14, 2019 in an amount equal to (x) 100% of Excess Cash Flow (as defined in the Term Loan Facility) for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability (as defined in the Term Loan Facility) of at least \$35,000,000, (y) 50% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability of at least \$15,000,000 but less than \$35,000,000, and (z) 0% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability less than \$15,000,000, with any such payment subject to reduction by the amount of any voluntary prepayments made following the date of the Third Amendment. Any voluntary prepayments will not be subject to the prepayment premium or make-whole provisions of the Term Loan Facility. The Third Amendment also adds a minimum liquidity requirement (consisting of cash plus undrawn availability on the Borrowers’ revolving loan facility) of \$28 million, measured monthly.

The Third Amendment also amended the exit fee payable to the term loan lenders to five percent (5.00%) of the outstanding principal balance of the term loans on November 30, 2018 (the “Exit Fee”), which Exit Fee shall be payable in full in cash upon the earlier to occur of (x) repayment in full of the term loans, or (y) any acceleration of the term loans. The Exit Fee will be reduced by one-tenth of one percent (0.10%) for every \$1,000,000 in voluntary prepayments made prior to January 1, 2020; provided, that, in no event shall the Exit Fee be reduced below three percent (3.00%) as a result of any such prepayments, (ii) payment of the Exit Fee shall be waived in the event that

repayment in full of the term loans occurs prior to January 1, 2020, and (iii) the Exit Fee shall be reduced by an amount equal to fifty percent (50%) of the amount that would otherwise payable in the event that repayment in full occurs on or after January 1, 2020 but prior to March 31, 2020.

On April 17, 2019, the Borrowers and the Company as a guarantor, and ten new subsidiaries of the Borrowers (the “New Subsidiaries”), entered into a Joinder to Term Loan Credit and Security Agreement and Other Documents (the “Joinder”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. Pursuant to the Joinder, the New Subsidiaries were added as guarantors under the Term Loan Facility.

The Company evaluated the First, Second and Third Amendments in accordance with the provisions of ASC 470 to determine if the Amendments were a modification or an extinguishment of debt and concluded that the amendments were a modification of the original term loan agreement for accounting purposes. As a result, in 2018 the Company capitalized an additional \$1.0 million of deferred financing costs in connection with the Second Amendment, which are being amortized over the remaining term.

The Company was in compliance with all covenants, under the PNC Facility and the Term Loan Facility, as amended, as of March 31, 2019. The Company’s ability to comply with these covenants in future quarters may be affected by events beyond the Company’s control, including general economic conditions, weather conditions, regulations and refrigerant pricing. Therefore, we cannot make any assurance that we will continue to be in compliance during future periods.

#### *Vehicle and Equipment Loans*

The Company has entered into various vehicle and equipment loans. These loans are payable in 60 monthly payments through March 2020 and bear interest ranging from 0.0% to 8.3%.

*Capital Lease Obligations*

The Company rents certain equipment with a net book value of approximately \$0.05 million at March 31, 2019 under leases which have been classified as capital leases. Scheduled future minimum lease payments under capital leases, net of interest, are as follows:

<b>Twelve Month Period Ending March 31,</b>	<b>Amount</b>
<b>(in thousands)</b>	
-2020	\$ 28
-2021	7
-2022	0
-2023	0
-2024	0
Subtotal	35
Less interest expense	(1 )
Total	\$ 34

Scheduled maturities of the Company's long-term debt and capital lease obligations are as follows:

<b>Twelve Month Period Ending March 31,</b>	<b>Amount</b>
<b>(in thousands)</b>	
-2020	\$2,127
-2021	2,107
-2022	2,102
-2023	2,100
-2024	94,762
Total	\$ 103,198



## **Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements, contained in this section and elsewhere in this Form 10-Q, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, changes in the laws and regulations affecting the industry, changes in the demand and price for refrigerants (including unfavorable market conditions adversely affecting the demand for, and the price of refrigerants), the Company's ability to source refrigerants, regulatory and economic factors, seasonality, competition, litigation, the nature of supplier or customer arrangements that become available to the Company in the future, adverse weather conditions, possible technological obsolescence of existing products and services, possible reduction in the carrying value of long-lived assets, estimates of the useful life of its assets, potential environmental liability, customer concentration, the ability to obtain financing, the ability to meet financial covenants under our financing facilities, any delays or interruptions in bringing products and services to market, the timely availability of any requisite permits and authorizations from governmental entities and third parties as well as factors relating to doing business outside the United States, including changes in the laws, regulations, policies, and political, financial and economic conditions, including inflation, interest and currency exchange rates, of countries in which the Company may seek to conduct business, the Company's ability to successfully integrate ARI and any other assets it acquires from third parties into its operations, and other risks detailed in the Company's Form 10-K for the year ended December 31, 2018, and in the Company's other subsequent filings with the Securities and Exchange Commission (“SEC”). The words “believe”, “expect”, “anticipate”, “may”, “plan”, “s” and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

### **Critical Accounting Policies**

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Several of the Company's accounting policies involve significant judgments, uncertainties and estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management's judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its inventory reserves, and valuation allowance for the deferred tax assets relating to its net operating loss carry forwards (“NOLs”) and goodwill and intangible assets.

### Inventory

For inventory, the Company evaluates both current and anticipated sales prices of its products to determine if a write down of inventory to net realizable value is necessary. Net realizable value represents the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion and disposal. The determination if a write-down to net realizable is necessary is primarily affected by the market prices for the refrigerant gases we sell. Commodity prices generally are affected by a wide range of factors beyond our control, including weather, seasonality, the availability and adequacy of supply, government regulation and policies and general political and economic conditions. At any time, our inventory levels may be substantial.

### Goodwill

The Company has made acquisitions that included a significant amount of goodwill and other intangible assets. The Company applies the purchase method of accounting for acquisitions, which among other things, requires the recognition of goodwill (which represents the excess of the purchase price of the acquisition over the fair value of the net assets acquired and identified intangible assets). We test our goodwill for impairment on an annual basis (the first day of the fourth quarter) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset below its carrying value. Other intangible assets that meet certain criteria are amortized over their estimated useful lives.

Beginning in 2017, the Company adopted, on a prospective basis, ASU No. 2017-04, which simplifies the accounting for goodwill impairment by eliminating Step 2 of the current goodwill impairment test that requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, a company will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. An impairment charge would be recognized when the carrying amount exceeds the estimated fair value of a reporting unit. These impairment evaluations use many assumptions and estimates in determining an impairment loss, including certain assumptions and estimates related to future earnings. If the Company does not achieve its earnings objectives, the assumptions and estimates underlying these impairment evaluations could be adversely affected, which could result in an asset impairment charge that would negatively impact operating results.

In 2018, due to a significant selling price correction leading to unfavorable market conditions, the Company performed a quantitative test by weighing the results of an income-based valuation technique, the discounted cash flows method, and a market-based valuation technique to determine its fair value. The market approach was used as a test of reasonableness of the conclusions reached in the income approach. Under the income approach assumptions critical to our fair value estimates are: (i) discount rates used to derive the present value factors used in determining the fair value; (ii) projected revenue growth rates; and (iii) projected long-term growth rates used in the derivation of terminal year values. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping. There were no impairment losses recognized during the first quarter of 2019 or 2018.

### Other Intangibles

Intangibles with determinable lives are amortized over the estimated useful lives of the assets currently ranging from 10 to 12 years. The Company reviews these useful lives annually to determine that they reflect future realizable value.

### Income Taxes

The Company is taxed at statutory corporate income tax rates after adjusting income reported for financial statement purposes for certain items. Current income tax expense (benefit) reflects the tax results of revenues and expenses currently taxable or deductible. The Company utilizes the asset and liability method of accounting for deferred income taxes, which provides for the recognition of deferred tax assets or liabilities, based on enacted tax rates and laws, for the differences between the financial and income tax reporting bases of assets and liabilities.

The tax benefit associated with the Company's net operating loss carry forwards ("NOLs") is recognized to the extent that the Company expects to realize future taxable income. As a result of a prior year "change in control", as defined by the Internal Revenue Service, the Company's ability to utilize its existing NOLs is subject to certain annual limitations. To the extent that the Company utilizes its NOLs, it will not pay tax on such income. However, to the extent that the Company's net income, if any, exceeds the annual NOL limitation, it will pay income taxes based on the then existing statutory rates. In addition, certain states either do not allow or limit NOLs and as such the Company will be liable for certain state income taxes.

As of March 31, 2019, the Company had NOLs of approximately \$37.4 million, of which \$32.0 million have no expiration date (subject to annual limitations of 80% of tax earnings) and \$5.4 million expire through 2023 (subject to annual limitations of approximately \$1.3 million). As of March 31, 2019, the company had state tax NOLs of approximately \$22.0 million expiring in various years. We review the likelihood that we will realize the benefit of our

deferred tax assets, and therefore the need for valuation allowances, on an annual basis in the fourth quarter of the year, and more frequently if events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results are considered, along with all other available positive and negative evidence.

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence that is objective and verifiable, such as cumulative losses in recent years. We utilize a rolling twelve quarters of pre-tax income or loss adjusted for significant permanent book to tax differences, as well as non-recurring items, as a measure of our cumulative results in recent years. Based on the cumulative operating loss experienced through December 31, 2018, our analysis indicated that we had cumulative three year historical losses on this basis, which represented significant negative evidence that is objective and verifiable and, therefore, difficult to overcome. Based on our assessment as of December 31, 2018, we concluded that due to the uncertainty that the deferred tax assets will not be fully realized in the future, we recorded a net valuation allowance of approximately \$11.3 million during the year ended December 31, 2018, and increased the allowance to \$13.3 million as of March 31, 2019 due to additional losses.

## Overview

Sales of refrigerants continue to represent a significant majority of the Company's revenues. The Company's refrigerant sales are primarily HCFC and HFC based refrigerants and to a lesser extent CFC based refrigerants that are no longer manufactured. Currently, the Company purchases virgin HCFC and HFC refrigerants and reclaimable HCFC, HFC and CFC refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the "Act") prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 established production and consumption allowances for HCFCs and imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. In October 2014, the EPA published the Final Rule providing further reductions in the production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019. In the Final Rule, the EPA has established a linear annual phase down schedule for the production or importation of virgin HCFC-22 that started at approximately 22 million pounds in 2015 and is being reduced by approximately 4.5 million pounds each year and ends at zero in 2020.

The Company has created and developed a service offering known as RefrigerantSide® Services. RefrigerantSide® Services are sold to contractors and end-users whose refrigeration systems are used in commercial air conditioning and industrial processing. These services are offered in addition to refrigerant sales and the Company's traditional refrigerant management services, which consist primarily of reclamation of refrigerants. The Company has created a network of service depots that provide a full range of the Company's RefrigerantSide® Services to facilitate the growth and development of its service offerings.

The Company focuses its sales and marketing efforts for its RefrigerantSide® Services on customers who the Company believes most readily appreciate and understand the value that is provided by its RefrigerantSide® Services offering. In pursuing its sales and marketing strategy, the Company offers its RefrigerantSide® Services to customers in the following industries: petrochemical, pharmaceutical, industrial power, manufacturing, commercial facility and property management and maritime. The Company may incur additional expenses as it further develops and markets its RefrigerantSide® Services offering.

In July 2016 the Company was awarded, as prime contractor, a five-year contract, including a five-year renewal option, by the DLA for the management, supply, and sale of refrigerants, compressed gases, cylinders and related services.

## Results of Operations

Three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018

Revenues for the three-month period ended March 31, 2019 were \$34.7 million, decrease of \$7.7 million or 18% from the \$42.4 million reported during the comparable 2018 period. The decrease in revenues was mainly attributable to a decrease in the selling price per pound of certain refrigerants sold, which accounted for approximately 67% of the decrease, and a decrease in the number pounds of certain refrigerants sold, which accounted for approximately 33% of the decrease.

Cost of sales for the three-month period ended March 31, 2019 was \$27.7 million or 80% of sales. The cost of sales for the three-month period ended March 31, 2018 was \$34.5 million or 81% of sales. The decrease in the cost of sales percentage from 81% for the three-month period ended March 31, 2018 to 80% for the three-month period ended March 31, 2019 is primarily due to a \$1.1 million adjustment during the first quarter of 2018 relating to the amortization of the step up in basis of R-22 refrigerant inventory acquired in the ARI acquisition, which for 2019 there was none.

Selling, general and administrative (“SG&A”) expenses for the three-month period ended March 31, 2019 were \$6.0 million, a decrease of \$2.1 million from the \$8.1 million reported during the comparable 2018 period. During the three months ended March 31, 2018, the Company recorded \$0.9 million of nonrecurring integration and related fees relating to the acquisition of ARI, which was consummated on October 10, 2017. The remaining decrease in SG&A is primarily due to reduced payroll-related expenses in 2019.

Amortization expense for both the three-month period ended March 31, 2019 and 2018 was \$0.7 million.

Interest expense for the three-month period ended March 31, 2019 was \$4.2 million, compared to the \$3.2 million reported during the comparable 2018 period. The difference is mainly due to the increase in interest expense relating to an increase in interest rate margin (spread) as a result of the amendment of the credit facilities in November 2018.

The income tax expense for the three-month period ended March 31, 2019 was \$0.1 million compared to income tax benefit of \$1.1 million for the three month period ended March 31, 2018. For 2019 and 2018, income tax expense for federal and state income tax purposes was determined by applying statutory

income tax rates to pre-tax income after adjusting for certain items. As discussed previously, we concluded that due to the uncertainty that the deferred tax assets will not be fully realized in the future, we recorded a full valuation allowance as of March 31, 2019; as such, the income tax expense recorded during the three-month period ended March 31, 2019 consists of a timing difference between book and tax reporting.



The net loss for the three-month period ended March 31, 2019 was \$4.0 million, an increase of \$0.9 million from the \$3.1 million of net loss reported during the comparable 2018 period, primarily due to the increase in interest expense. However, as discussed previously, there was also a \$1.1 million tax benefit during the three months ended March 31, 2018 and no tax benefit during the three months ended March 31, 2019.

## **Liquidity and Capital Resources**

At March 31, 2019, the Company had working capital, which represents current assets less current liabilities, of \$58.9 million, a decrease of \$4.3 million from the working capital of \$63.2 million at December 31, 2018. The decrease in working capital is primarily attributable to timing factors related to the accounts payable and trade receivables as described below.

Inventory and trade receivables are principal components of current assets. At March 31, 2019, the Company had inventories of \$99.8 million, a decrease of \$2.2 million from \$102.0 million at December 31, 2018. The decrease in the inventory balance is primarily due to the timing and availability of inventory purchases and the sale of refrigerants. The Company's ability to sell and replace its inventory on a timely basis and the prices at which it can be sold are subject, among other things, to current market conditions and the nature of supplier or customer arrangements and the Company's ability to source CFC based refrigerants (which are no longer being produced), HCFC refrigerants (which are currently being phased down leading to a full phase out of virgin production), or non-CFC based refrigerants. At March 31, 2019, the Company had trade receivables, net of allowance for doubtful accounts, of \$20.1 million, an increase of \$6.0 million from \$14.1 million at December 31, 2018. The Company's trade receivables are concentrated with various wholesalers, brokers, contractors and end-users within the refrigeration industry that are primarily located in the continental United States.

The Company has historically financed its working capital requirements through cash flows from operations, the issuance of debt and equity securities, and bank borrowings.

Net cash used by operating activities for the three-month period ended March 31, 2019 was \$1.9 million, when compared to net cash provided by operating activities of \$9.5 million for the comparable 2018 period. Net cash provided by operating activities in the 2019 period decreased due to the net loss reported in the period and timing of certain receivables and payables during the quarter.

Net cash used in investing activities for the three-month period ended March 31, 2019 was \$0.2 million compared with net cash used in investing activities of \$0.2 million for the comparable 2018 period. The net cash used in investing activities for the 2019 and 2018 periods was primarily related to investment in general purpose equipment



for the Company's facilities.

Net cash provided by financing activities for the three-month period ended March 31, 2019 was \$0.9 million compared with net cash used in financing activities of \$13.3 million for the comparable 2018 period. During the first quarter of 2019, the Company increased its borrowing under the PNC Facility by \$2 million and reduced the Term Loan Facility by \$1.1 million while in the comparable 2018 period, the Company reduced its borrowing under the PNC facility by \$13.1 million and reduced the Term Loan Facility by \$0.3 million.

At March 31, 2019, cash and cash equivalents were \$1.2 million, or approximately \$1.1 million lower than the \$2.3 million of cash and cash equivalents at December 31, 2018. The Company continues to assess its capital expenditure needs. The Company may, to the extent necessary, continue to utilize its cash balances to purchase equipment primarily for its operations.

## **Credit Facilities**

### *Bank Credit Line*

On October 10, 2017, Hudson Technologies Company ("HTC"), Hudson Holdings, Inc. ("Holdings") and Aspen Refrigerants, Inc. ("ARI"), as borrowers (collectively, the "Borrowers"), and the Company as a guarantor, became obligated under an Amended and Restated Revolving Credit and Security Agreement (the "PNC Facility") with PNC Bank, National Association, as administrative agent, collateral agent and lender ("Agent" or "PNC"), PNC Capital Markets LLC as lead arranger and sole bookrunner, and such other lenders as may thereafter become a party to the PNC Facility.

Under the terms of the PNC Facility, the Borrowers may borrow, from time to time, up to \$150 million at any time consisting of revolving loans in a maximum amount up to the lesser of \$150 million and a borrowing base that is calculated based on the outstanding amount of the Borrowers' eligible receivables and eligible inventory, as described in the PNC Facility. The PNC Facility also contains a sublimit of \$15 million for swing line loans and \$5 million for letters of credit.

Amounts borrowed under the PNC Facility were used by the Borrowers to consummate the acquisition of ARI and for working capital needs, certain permitted future acquisitions, and to reimburse drawings under letters of credit. At March 31, 2019, total borrowings under the PNC Facility were \$31.0 million, and total availability was approximately \$36.1 million. In addition, there was a \$130,000 outstanding letter of credit at March 31, 2019.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. Interest charges with respect to loans were initially computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus 0.5% and (3) the daily LIBOR plus 1.0%, plus (ii) between 0.50% and 1.00% depending on average quarterly undrawn availability and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus between 1.50% and 2.00% depending on average quarterly undrawn availability.

Borrowers and the Company granted to the Agent, for the benefit of the lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The PNC Facility contains a financial covenant requiring the Company to maintain at all times a Fixed Charge Coverage Ratio (FCCR) of not less than 1.00 to 1.00, as of the end of each trailing period of four consecutive quarters. The FCCR (as defined in the PNC Facility) is the ratio of (a) EBITDA for such period, minus unfinanced capital expenditures made during such period, minus the aggregate amount of cash taxes paid during such period, to (b) the aggregate amount of all scheduled payments of principal (excluding principal payments relating to outstanding revolving loans under the PNC Facility) and all cash payments of interest, plus cash dividends and distributions made during such period, plus payments in respect of capital lease obligations made during such period.

On December 6, 2017, the Borrowers and the Company as a guarantor, entered into a First Amendment to Amended and Restated Revolving Credit and Security Agreement (the "First Amendment") with PNC. The First Amendment, which was entered into in connection with the syndication of the credit facility, amended the PNC Facility to allow syndicate lenders to provide certain cash management and hedging products and services to the Borrowers, and made amendments to the PNC Facility with respect to lender approval requirements of specified matters and other administrative matters.

On November 30, 2018, the Borrowers and the Company as a guarantor, entered into a Second Amendment to Amended and Restated Revolving Credit and Security Agreement, Consent and Waiver (the "Second Revolver

Amendment”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”) and the lenders thereunder.

The Second Revolver Amendment amends the Amended and Restated Revolving Credit and Security Agreement dated October 10, 2017 (as amended to date, the “PNC Facility”), to replace the existing fixed charge coverage ratio until September 30, 2019 with an EBITDA covenant requiring minimum EBITDA for the four fiscal quarters ended on the following dates: September 30, 2018 - \$9,240,000; December 31, 2018 - \$9,428,000; March 31, 2019 - \$9,270,000; June 30, 2019 - \$14,195,000. The minimum fixed charge coverage ratio of 1.00:1.00 shall recommence for the quarter ending September 30, 2019.

The Second Revolver Amendment also increases the applicable interest rate margin to 3% for Eurodollar Rate Loans (as defined in the PNC Facility) and 2% for Domestic Rate Loans (as defined in the PNC Facility) through September 30, 2019, with applicable margins thereafter of between 2.5% and 3% for Eurodollar Rate Loans and 1.5% and 2% for Domestic Rate Loans based on the applicable fixed charge coverage ratio. In connection with the Second Revolver Amendment, the Borrowers also paid the Agent a waiver and amendment fee of \$250,000.

On April 17, 2019, the Borrowers, the Company as a guarantor, and ten new subsidiaries of the Borrowers (the “New Subsidiaries”), entered into a Third Amendment and Joinder to Amended and Restated Revolving Credit and Security Agreement and Waiver (the “Third Revolver Amendment”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”) and the lenders thereunder. Pursuant to the Third Amendment, the New Subsidiaries were added as guarantors under the PNC Facility.

The Company evaluated the First, Second and Third Revolver Amendments in accordance with the provisions of ASC 470 to determine if the Amendments were a modification or an extinguishment of debt and concluded that amendments were a modification of the original term loan agreement for accounting purposes. As a result, in 2018 the Company capitalized an additional \$250,000 of deferred financing costs in connection with the Second Amendment, which are being amortized over the remaining term.

The PNC Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on Borrowers' ability to pay dividends on common stock or preferred stock, and also includes certain events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, impairments to guarantees and a change of control.

The commitments under the PNC Facility will expire and the full outstanding principal amount of the loans, together with accrued and unpaid interest, are due and payable in full on October 10, 2022, unless the commitments are terminated and the outstanding principal amount of the loans are accelerated sooner following an event of default.

In connection with the closing of the PNC Facility, the Company also entered into an Amended and Restated Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the "Revolver Guarantee"), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to PNC, as Agent for the benefit of the revolving lenders.

#### *Term Loan Facility*

On October 10, 2017, HTC, Holdings, and ARI, as borrowers, and the Company, as guarantor, became obligated under a Term Loan Credit and Security Agreement (the "Term Loan Facility") with U.S. Bank National Association, as administrative agent and collateral agent ("Term Loan Agent") and funds advised by FS Investments and such other lenders as may thereafter become a party to the Term Loan Facility (the "Term Loan Lenders").

Under the terms of the Term Loan Facility, the Borrowers immediately borrowed \$105 million pursuant to a term loan (the "Initial Term Loan") and could borrow up to an additional \$25 million for a period of eighteen months after closing to fund additional permitted acquisitions (the "Delayed Draw Commitment", and together with the Initial Term Loan, the "Term Loans").

On June 29, 2018, HTC, Holdings and ARI, as borrowers, and the Company as a guarantor, entered into a Limited Waiver and First Amendment to Term Loan Credit and Security Agreement and Other Documents (the "First Amendment") with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. The First Amendment terminated the Delayed Draw Commitment and provided an interim waiver with respect to compliance with the existing TLR covenant at June 30, 2018.

The Term Loans mature on October 10, 2023. Principal payments on the Term Loans are required on a quarterly basis, commencing with the quarter ended March 31, 2018, in the amount of 1% per annum of the original principal of the outstanding Term Loans. Commencing with the fiscal year ending December 31, 2018, the Term Loan Facility also requires annual principal payments of up to 50% of Excess Cash Flow (as defined in the Term Loan Facility) if the Company's Total Leverage Ratio (as defined in the Term Loan Facility) for the applicable year is greater than 2.75 to 1.00. The Term Loan Facility also requires mandatory prepayments of the Term Loans in the event of certain asset dispositions, debt issuances, and casualty and condemnation events. The Term Loans may be prepaid at the option of the Borrowers at par in an amount up to \$30 million. Additional prepayments are permitted after the first anniversary of the closing date and were originally subject to a prepayment premium of 3% in year two, 1% in year three and zero in year four and thereafter.

Interest on the Term Loans is generally payable on the earlier of the last day of the interest period applicable to such Eurodollar rate loan and the last day of the Term Loan Facility, as applicable. Interest was originally payable at the rate per annum of the Eurodollar Rate (as defined in the Term Loan Facility) plus 7.25%. The Borrowers have the option of paying 3.00% interest per annum in kind by adding such amount to the principal of the Term Loans during no more than five fiscal quarters during the term of the Term Loan Facility.

Borrowers and the Company granted to the Term Loan Agent, for the benefit of the Term Loan Lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The Term Loan Facility originally contained a financial covenant requiring the Company to maintain a Total Leverage Ratio (TLR) of not greater than 4.75 to 1.00, tested as of the last day of the fiscal quarter. The Term Loan Facility was amended on August 14, 2018, including a waiver of the TLR covenant at June 30, 2018, as described below. The TLR (as defined in the Term Loan Facility) is the ratio of (a) funded debt as of such day to (b) EBITDA for the four consecutive fiscal quarters ending on the last day of such fiscal quarter. Funded debt (as defined in the Term Loan Facility) includes amounts borrowed under the PNC Facility and the Term Loan Facility as well as capitalized lease obligations and other indebtedness for borrowed money maturing more than one year from the date of creation thereof. As of March 31, 2019 and December 31, 2018, the TLR was approximately 12.47 to 1 and 11.82 to 1, respectively.

The Term Loan Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on their ability to pay dividends on common stock or preferred stock, and also includes certain events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, impairments to guarantees and a change of control.

In connection with the closing of the Term Loan Facility, the Company also entered into a Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the “Term Loan Guarantee”), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to Term Loan Agent, as agent for the benefit of the Term Loan Lenders.

The Term Loan Agent and the Agent have entered into an intercreditor agreement governing the relative priority of their security interests granted by the Borrowers and the Guarantor in the collateral, providing that the Agent shall have a first priority security interest in the accounts receivable, inventory, deposit accounts and certain other assets (the “Revolving Credit Priority Collateral”) and the Term Loan Agent shall have a first priority security interest in the equipment, real property, capital stock of subsidiaries and certain other assets (the “Term Loan Priority Collateral”).

On August 14, 2018, HTC, Holdings and ARI, as borrowers, and the Company as a guarantor, entered into a Waiver and Second Amendment to Term Loan Credit and Security Agreement (the “Second Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. The Second Amendment superseded interim waivers and amended the Term Loan Facility, to waive compliance with the existing TLR covenant at June 30, 2018.

In addition, the Second Amendment also: (i) increases the interest rate by 300 basis points effective July 1, 2018; (ii) waives the existing prepayment premium in the Term Loan Facility in the event the term loan is repaid in full prior to March 31, 2020; (iii) adds an exit fee equal to three percent (3.00%) of the outstanding principal balance of the term loans on the date of the Second Amendment (provided, that payment of the exit fee is waived in the event that the term loan is repaid in full prior to January 1, 2020, and provided further that the exit fee is reduced to one-and-one-half percent (1.50%) in the event that the term loan is repaid in full on or after January 1, 2020 but prior to March 31, 2020); (iv) restricted acquisitions and other equity investments prior to September 30, 2018; and (v) required payment of a one-time waiver fee equal to one percent (1.00%) of the outstanding term loans.

On November 30, 2018, the Borrowers, and the Company as a guarantor, entered into a Waiver and Third Amendment to Term Loan Credit and Security Agreement (the “Third Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder.

The Third Amendment superseded interim waivers and amended the Term Loan Facility to reset the maximum Total Leverage Ratio covenant contained in the Term Loan Facility at the indicated dates as follows: (i) June 30, 2018 - 10.15:1.00; (ii) September 30, 2018 - 12.45:1.00; (iii) December 31, 2018 - 12.75:1.00; (iv) March 31, 2019 - 12.95:1.00; (v) June 30, 2019 - 8.25:1.00; September 30, 2019 - 6.40:1.00; (vi) December 31, 2019 - 5.70:1.00; and (vii) March 31, 2020 and each fiscal quarter thereafter - 4.75:1.00.

The Third Amendment increased the scheduled quarterly principal repayments to \$525,000 effective December 31, 2018. In addition the Third Amendment requires a further repayment of principal on or before November 14, 2019 in an amount equal to (x) 100% of Excess Cash Flow (as defined in the Term Loan Facility) for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability (as defined in the Term Loan Facility) of at least \$35,000,000, (y) 50% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability of at least \$15,000,000 but less than \$35,000,000, and (z) 0% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability less than \$15,000,000, with any such payment subject to reduction by the amount of any voluntary prepayments made following the date of the Third Amendment. Any voluntary prepayments will not be subject to the prepayment premium or make-whole provisions of the Term Loan Facility. The Third Amendment also adds a minimum liquidity requirement (consisting of cash plus undrawn availability on the Borrowers' revolving loan facility) of \$28 million, measured monthly.

The Third Amendment also amended the exit fee payable to the term loan lenders to five percent (5.00%) of the outstanding principal balance of the term loans on November 30, 2018 (the "Exit Fee"), which Exit Fee shall be payable in full in cash upon the earlier to occur of (x) repayment in full of the term loans, or (y) any acceleration of the term loans. The Exit Fee will be reduced by one-tenth of one percent (0.10%) for every \$1,000,000 in voluntary prepayments made prior to January 1, 2020; provided, that, in no event shall the Exit Fee be reduced below three percent (3.00%) as a result of any such prepayments, (ii) payment of the Exit Fee shall be waived in the event that repayment in full of the term loans occurs prior to January 1, 2020, and (iii) the Exit Fee shall be reduced by an amount equal to fifty percent (50%) of the amount that would otherwise payable in the event that repayment in full occurs on or after January 1, 2020 but prior to March 31, 2020.

On April 17, 2019, the Borrowers and the Company as a guarantor, and ten new subsidiaries of the Borrowers (the “New Subsidiaries”), entered into a Joinder to Term Loan Credit and Security Agreement and Other Documents (the “Joinder”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. Pursuant to the Joinder, the New Subsidiaries were added as guarantors under the Term Loan Facility.

The Company evaluated the First, Second and Third Amendments in accordance with the provisions of ASC 470 to determine if the Amendments were a modification or an extinguishment of debt and concluded that the amendments were a modification of the original term loan agreement for accounting purposes. As a result, the Company capitalized an additional \$1.0 million of deferred financing costs in connection with the Second Amendment, which are being amortized over the remaining term.

The Company was in compliance with all covenants, under the PNC Facility and the Term Loan Facility, as amended, as of March 31, 2019. The Company’s ability to comply with these covenants in future quarters may be affected by events beyond the Company’s control, including general economic conditions, weather conditions, regulations and refrigerant pricing. Therefore, we cannot make any assurance that we will continue to be in compliance during future periods.

## **Inflation**

Inflation has not historically had a material impact on the Company’s operations.

## **Reliance on Suppliers and Customers**

The Company participates in an industry that is highly regulated, and changes in the regulations affecting our business could affect our operating results. Currently the Company purchases virgin HCFC and HFC refrigerants and reclaimable, primarily HCFC and CFC, refrigerants from suppliers and its customers. Under the Act the phase-down of future production of certain virgin HCFC refrigerants commenced in 2010 and is scheduled to be fully phased out by the year 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by the year 2030. To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand and/or price for refrigerants sold by it, the Company could realize reductions in revenue from refrigerant sales, which could have a material adverse effect on the Company’s operating results and financial position.



For the three-month period ended March 31, 2019, there was one customer accounting for 15% of the Company's revenues. At March 31, 2019 there was \$3.0 million of accounts receivable from this customer.

For the three-month period ended March 31, 2018, there was one customer accounting for 11% of the Company's revenues. At March 31, 2018 there was \$4.0 million of accounts receivable from this customer.

The loss of a principal customer or a decline in the economic prospects of and/or a reduction in purchases of the Company's products or services by any such customer could have a material adverse effect on the Company's operating results and financial position.

### **Seasonality and Weather Conditions and Fluctuations in Operating Results**

The Company's operating results vary from period to period as a result of weather conditions, requirements of potential customers, non-recurring refrigerant and service sales, availability and price of refrigerant products (virgin or reclaimable), changes in reclamation technology and regulations, timing in introduction and/or retrofit or replacement of refrigeration equipment, the rate of expansion of the Company's operations, and by other factors. The Company's business is seasonal in nature with peak sales of refrigerants occurring in the first nine months of each year. During past years, the seasonal decrease in sales of refrigerants has resulted in losses particularly in the fourth quarter of the year. In addition, to the extent that there is unseasonably cool weather throughout the spring and summer months, which would adversely affect the demand for refrigerants, there would be a corresponding negative impact on the Company. Delays or inability in securing adequate supplies of refrigerants at peak demand periods, lack of refrigerant demand, increased expenses, declining refrigerant prices and a loss of a principal customer could result in significant losses. There can be no assurance that the foregoing factors will not occur and result in a material adverse effect on the Company's financial position and significant losses. The Company believes that to a lesser extent there is a similar seasonal element to RefrigerantSide® Service revenues as refrigerant sales. The Company is continuing to assess its RefrigerantSide® Service revenues seasonal trend.

### **Off-Balance Sheet Arrangements**

None.

### **Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses." This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and for interim periods therein. The Company does not expect the amended standard to have a material impact on the Company's results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. In July 2018, the FASB issued ASU No. 2018-11, Leases – Targeted Improvements, as an update to the previously-issued guidance. This update added a transition option which allows for the recognition of a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption without recasting the financial statements in periods prior to adoption. We have used the modified retrospective transition approach in ASU No. 2018-11 and applied the new lease requirements through a cumulative-effect adjustment in the period of adoption. We elected the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We also elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet and recognize the associated lease payments in the consolidated statements of operations on a straight-line basis over the lease term. We recorded approximately \$8.1 million as total right-of-use assets and total lease liabilities on our consolidated balance sheet as of January 1, 2019. The Company's accounting for finance leases remained substantially unchanged. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 5.

### **Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Sensitivity**

We are exposed to market risk from fluctuations in interest rates on the PNC Facility and on the Term Loan Facility. The PNC Facility is a \$150,000,000 secured facility, and the Term Loan Facility provides for Term Loans of \$105,000,000.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. Interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus 0.5% and (3) the daily LIBOR plus 1.0%, plus (ii) between 0.50% and 1.00% depending on average quarterly undrawn availability and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus between 1.50% and 2.00% depending on average quarterly undrawn availability. There was a \$31,000,000 outstanding balance on the PNC Facility as of March 31, 2019. Future interest rate changes on our borrowing under the PNC Facility may have an impact on our consolidated results of operations.

Interest on the Term Loans is payable at the rate per annum of the Eurodollar Rate (as defined in the Term Loan Facility) plus 7.25% and is generally payable on the earlier of the last day of the interest period applicable to such Eurodollar rate loan and the last day of the Term Loan Facility, as applicable. There was a \$103,162,500 outstanding balance on the Term Loan Facility as of March 31, 2019. Future interest rate changes on our borrowing under the Term Loans may have an impact on our consolidated results of operations.

If the loan bearing interest rate changed by 1%, the annual effect on interest expense would be approximately \$1.6 million as of March 31, 2019.

## **Refrigerant Market**

We are also exposed to market risk from fluctuations in the demand, price and availability of refrigerants. To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand and/or price for refrigerants sold by the Company, the Company could realize reductions in revenue from refrigerant sales or write-downs of inventory, which could have a material adverse effect on our consolidated results of operations.

## **Item 4 - Controls and Procedures**

### *Disclosure Controls and Procedures*

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Furthermore, the Company's controls and procedures can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control and misstatements due to error or fraud may occur and not be detected on a timely basis.

### *Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1 - Legal Proceedings

For information regarding pending legal matters, refer to the Legal Proceedings Section in Part I, Item 3 of the Company's Form 10-K for the year ended December 31, 2018. There have been no material changes to such matters during the quarter ended March 31, 2019.

### Item 6 - Exhibits

Exhibit Number	Description
<u>10.1</u>	<u>Third Amendment and Joinder to Amended and Restated Revolving Credit and Security Agreement and Waiver dated April 17, 2019</u>
<u>10.2</u>	<u>Joinder to Term Loan Credit and Security Agreement and Other Documents dated April 17, 2019</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
<u>32.2</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

### **HUDSON TECHNOLOGIES, INC.**

By: /s/ Kevin J. Zugibe	May 2, 2019
Kevin J. Zugibe	<b>Date</b>
<i>Chairman and</i>	
<i>Chief Executive Officer</i>	

By: /s/ Nat Krishnamurti	May 2, 2019
Nat Krishnamurti	<b>Date</b>
<i>Chief Financial Officer</i>	